Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, & Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

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Consultant, Ana Matosantos

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies and programs to assist health care delivery systems in meeting the needs of Californians. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. The OSHPD budget increases by $1.7 million, or 3 percent above current year expenditures. General Fund support decreases by $763,000.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$4,929	$4,166	-$763	-15.5
Federal Trust Fund	1,285	1,285	0	0.0
Special Funds	46,953	51,510	4,557	9.7
Reimbursements	3,785	1,683	-2,102	-55.5
Total	$56,952	$58,644	$1,692	3.0

VOTE ONLY ITEMS:

1. Hospital Charge Master Reporting.

Background: AB 1627 (Chapter 582, Statutes of 2003) seeks to provide information about hospital prices to patients, health plans and other healthcare purchasers. Beginning in July 2004, AB 1627 requires each hospital to file annually with OSHPD a copy of its charge description master and a list of the charges for 25 services or procedures commonly charged to patients. It authorizes OSHPD to compile and publish on its website a list of the ten most common Medicare diagnosis related groups (DRG) and the average charge for each DRG by individual hospital.

Governor's Budget: The budget provides $118,000 from the California Health Data and Planning Fund to design, develop and implement an efficient system to collect, store and disseminate the information regarding hospital charges as required by AB 1627. The funding will support the costs of collecting and storing electronically charge description masters and pricing information submitted to OSHPD by California hospitals. The budget does not propose to establish new positions.

Budget issue: Does the Legislature wish to maintain the Governor's proposed $118,000 augmentation to fund implementation of AB 1627?

DISCUSSION ITEMS:

1. Hospital Seismic Safety

Background: California law requires, as a condition of licensure, that acute care hospitals meet certain seismic performance standards by 2008 or by 2013 if they have received an approved extension from OSHPD. Hospital buildings considered at risk of collapsing must be retrofitted, replaced or removed from acute care hospital service by the state deadline. By 2008, hospitals must assure that buildings where acute care services are delivered do not collapse following an earthquake. California law requires hospitals to meet additional structural and nonstructural requirements by 2030 such that persons who rely on a hospital for services can reasonably expect it to function during and immediately following an earthquake. According to the California Healthcare Association, the cost to hospitals of meeting the 2030 seismic requirements may reach $24 billion.

OSHPD is the state entity responsible for enforcing hospital compliance with seismic safety requirements. To date, OSHPD has developed standards to assess hospital building performance, categorized buildings according to structural and non structural performance categories, and reviewed and approved hospital plans to achieve compliance with state seismic requirements. Current OSHPD efforts include the review and approval of hospital construction plans and observation of construction.

According to OSHPD, 1,023 buildings located across the state's 448 hospitals pose a significant risk of collapse in a strong earthquake and must be retrofitted, replaced or cease to provide acute care services by 2008. 114 acute care hospitals have received extensions and plan to meet the required seismic safety standards by 2013. The state's remaining 334 acute care hospitals presumably plan to meet seismic requirements by 2008 or to request an extension in the future.

Hospital efforts to meet the 2008 seismic safety deadline have significantly increased the workload of OSHPD's Facilities Development Division. Between 2001 and 2003 the volume of planned hospital construction doubled. In the budget year, the Division will review plans for an estimated $2.6 billion in hospital construction costs. The increased level of workload is expected to continue until 2013.

<u>Governor's Budget:</u> The budget provides a $3.8 million increase to OSHPD and establishes 50 new permanent positions to support prompt review of hospital construction plans. Additionally, the budget shifts funding for the Seismic Retrofit Program from reimbursements to the Hospital Building Fund.

The California Healthcare Association and various healthcare systems' representatives write in support of the Governor's budget proposal arguing that delays in the review and approval of construction plans may significantly increase construction costs and impede hospital compliance with state seismic safety requirements.

<u>Subcommittee request and questions:</u> The Subcommittee has requested that OSHPD provide an update on the status of hospital compliance with California's Seismic Safety requirements and answer the following questions:

1. How many hospitals are currently in compliance with building seismic standards?
2. How many hospitals are expected to achieve compliance by 2008? by 2013?
3. How will seismic requirements impact future availability of acute care hospital services?

<u>Budget Issue:</u> Does the Legislature wish to maintain the Governor's proposed $3.8 million augmentation and 50 new positions to support prompt review of hospital construction plans?

2. Health Professions Scholarship and Loan Repayment Programs.

Background: The Health Professions Education Foundation manages eight scholarship and loan repayment programs that support registered nurses, nurse practitioners, certified nurse midwives, allied health professionals, dentists, dental hygienists, physician assistants and other health professionals who agree to practice in medically underserved areas. The scholarship and loan repayment programs are generally funded by fees assessed from licensed health care professionals. The Foundation manages over 500 awards and reviews more than 500 scholarship and loan repayment applications annually.

Legislation enacted in 2003 establishes two new education programs to be administered by the Foundation. AB 938, Chapter 437, Statutes of 2003 created the Licensed Mental Health Education Program. SB 358, Chapter 640, Statutes of 2003 established the Vocational Nurse Education Program. Both programs will be funded by fee revenue generated from recently established licensing fees.

Governor's Budget: The budget provides a $987,000 increase and establishes 1.5 new positions to implement the Licensed Mental Health Education Program and the Vocational Nurse Education Program, as well as to increase the Registered Nurse Education Program award amounts.

Beginning in July 2004, the Vocational Nurse Education Program will provide scholarships to vocational nurse students and graduates of vocational nurse programs who agree to practice in county health facilities, eligible state operated facilities and facilities located in health manpower shortage areas or medically underserved areas. The Foundation expects to award 20-25 scholarships in its first year.

The Licensed Mental Health Education Program will provide loan repayment grants to licensed mental health providers who agree to work in publicly funded facilities or facilities located in mental health professional shortage areas. The program will be implemented in January 2005 and is expected to provide 30 grants in its first year of operation.

Subcommittee request and questions: The Subcommittee has requested that the Health Professions Education Foundation provide a brief description of the new programs, the number of persons expected to participate in the programs and the number of patients expected to benefit from the programs.

Budget Issue: Does the Legislature wish to maintain the Governor's proposed $987,000 augmentation and 1.5 new positions to implement the Licensed Mental Health Education Program and the Vocational Nurse Education Program, as well as to increase the Registered Nurse Education Program award amounts?

4170 Department of Aging

The Department of Aging is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The department's budget increases by $13,000. However, the General Fund contribution to the department declines by 4.8 percent, or $1.7 million.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$35,035	$33,366	-$1,669	-4.8
State HICAP Fund	1,612	1,773	161	10.0
Federal Trust Fund	139,410	139,456	46	0.0
Special Deposit Account	2,340	1,542	-798	-34.1
Reimbursements	6,914	9,187	2,273	32.9
Total	$185,311	$185,324	$13	0.0

VOTE ONLY ITEMS

1. Health Insurance Counseling and Advocacy Program (HICAP)

Background: The Health Insurance Counseling and Advocacy Program (HICAP) is a consumer oriented health insurance counseling and advocacy program. It provides community education to Medicare beneficiaries, legal referrals and individual health insurance counseling, as well as advocacy services regarding Medicare and other health insurance claims and appeals.

HICAP is funded by a combination of state and federal funds. The program receives federal State Health Insurance Assistance Program funds. It also receives state funds from the HICAP Fund and the Insurance Fund, two funds supported by fees assessed by the state from health plans.

In 2002, the federal government discontinued the Medicare+Choice grant funding. As a result, California's HICAP program lost $560,000 in federal funds in 2003-04. Senate Bill 413, Chapter 545, Statutes of 2003 authorized the Department of Aging to increase the existing HICAP assessment on health plans to $1.20 and required plans that offer Medicare supplement contracts, including Medicare Select contracts, to be subject to the HICAP assessment. The increased revenue is intended to restore HICAP program funding to its 2002-03 level.

Governor's Budget: The budget **increases by $485,000 funding for the Health Insurance Counseling and Advocacy program**. Revenues resulting from the higher HICAP assessment authorized by SB 413 and additional Insurance Fund participation will fund the augmentation.

Budget Issue: Does the Legislature wish to maintain the proposed funding increase?

2. Long-Term Care Ombudsman Program

Background: Established in 1972 as a demonstration program, **the Office of State Long-Term Care Ombudsman provides a range of services designed to protect persons receiving care from nursing homes and residential care facilities for the elderly**. The Ombudsman works to monitor and improve quality of care and quality of life in California's long term care facilities. The Office, which is operated by staff and volunteers, is responsible for the investigation and resolution of complaints made by or on behalf of residents of skilled nursing facilities, distinct part skilled nursing facilities and residential care facilities for the elderly. Additionally, Office staff visit residents, provide consultations to facilities, train facility staff, and conduct community education sessions. **The California's Ombudsman serves residents of California's 7,400 SNF, Distinct Part SNF and RCFE facilities, which have a combined total of 277,000 beds.**

According to the Department of Aging in the 2002-2003 fiscal year, **the Ombudsman staff and volunteers investigated 36,000 complaints related to nursing home abuse**. The Department cites recent studies, which document a high incidence of nursing home violations and report that 44 percent of nursing homes do not meeting minimum staffing levels. The Department argues that there are significant unmet needs for Ombudsman services in the state.

Governor' s Budget: The **budget proposes a net increase of $1.3 million to expand Long-Term Care Ombudsman Program**. The proposed increase is contingent on federal approval as it will be funded by obtaining federal Medicaid funding for Ombudsman services rendered to Medicaid eligible residents of skilled nursing facilities.

Budget Issue: Does the Legislature wish to approve the proposed funding increase?

ITEMS FOR DISCUSSION

1. Block Grant Funding for Aging Services.

Background: The California Department of Aging (CDA) oversees various programs and services designed to meet long-term care needs of California seniors and to assist seniors and functionally impaired adults in living independently. The CDA administers the federal Older Americans Act, which funds supportive services, nutrition programs, employment services, and preventive health services for seniors, and the State Older Californians Act which provides for the delivery of community based services for older Californians and functionally impaired adults. CDA's Community Based Services Programs include the Foster Grandparent Program, Senior Companion Program, Respite Registry, Linkages, Alzheimer Day Care Resource Centers, the Brown Bag Program, Purchase of Services and HICAP.

CDA funding for supportive services and nutrition services amounts to $146 million ($31.4 million General Fund). General Fund support for CDA programs is divided into funding for federal Older Americans Act programs ($16.4 million) and funding for Community Based Services Programs ($15 million). Most Community Based Programs are funded by a combination of General Fund, federal funds and other funds, including fee revenues. HICAP is the only Community Based Program that does not receive General Fund.

The chart below describes Community Based Services Programs and associated expenditures:

Program Description	Expenditures
Linkages Case Management Program. Established in 1985, Linkages provides case management services to frail elderly and functionally impaired adults to prevent or delay placement in nursing facilities. Approximately half of Linkages consumers are enrolled in Medi-Cal. Linkages operates at an approximate cost of $1,300 per client.	**$8,264,000**
Alzheimer's Day Care Resource Center Program (ADCRC). Established in 1984, the ADCRC supports specialized day care resource centers that serve persons in the moderate to severe stages of Alzheimer's disease and other dementia-related disorders. ADCRCs provide supportive services to families and caregivers. ADCRCs are required to seek funding from non-governmental resources and to provide a match of at least 25 percent of its CDA funding.	**$4,543,000**
Senior Companion Program. Since 1979, the Senior Companion Program supports the delivery of volunteer light respite care and peer support services to frail elderly individuals. The Program provides a modest stipend to volunteers who are 60 years of age or older, who are low-income, and who provide at least 20 hours of volunteer services per week.	**$398,000**
Brown Bag Program. Established in 1981, the Brown Bag Program provides surplus and unmarketable fruit, vegetables and other unsold food products to low-income persons who are 60 years of age or older and who are eligible for SSI/SSP. The program provides seniors a yearly amount of food valued at $618. Brown Bag providers are required to provide a cash match of 25 percent and an in-kind match of 25 percent prior to receiving program funds.	**$789,000**
Foster Grandparent Program. Established as a pilot project in 1979, the Foster Grandparent Program supports the delivery of volunteer services to children with special needs. Foster Grandparent volunteers are low-income, sixty years of age or older, and are not members of the regular workforce. Volunteers receive a modest stipend, a free meal or meal reimbursement on each day of service, and an annual free physical examination.	**0**
Respite Registry Program. Established as a pilot program in 1996, the Respite Registry Program provides temporary or periodic services to frail or elderly adults with functional impairments to relieve persons who are providing care. It also recruits and screens providers, and matches respite providers to clients.	**0**
Purchase of Services: The Respite Purchases of Services Program provides relief and support to caregivers who are not receiving services from other respite programs. It provides limited funding ($450 annually per person) to purchase short term in-home care, day care, or 24-hour care at a licensed skilled, intermediate, or residential care facility.	**$426,000**
Health Insurance Counseling and Advocacy Program (HICAP). Established in 1984, HICAP is a consumer oriented health insurance counseling and advocacy program that provides community education to Medicare beneficiaries, legal referrals, as well as counseling and advocacy services regarding Medicare and other health insurance claims and appeals.	**$4,883,000**
CBSP Administration. AAA administration for these programs was budgeted as a separate component through 2003-04.	**$951,000**

Historically, the Department of Aging administered Community Based Services Programs (CBSP) at the state level. The Department contracted directly with program providers, offered training and technical assistance, and was responsible for overall program management. AB 2800 (Granlund), Chapter 1097 Statutes of 1996, consolidated program funding and transferred program management and contracting responsibilities from the CDA to local Area Agencies on Aging (AAA). AAAs are now responsible for making funding decisions and for overall management of CBSP programs including the provision of training and technical assistance to service providers.

Local Area Agencies on Aging have significant discretion to determine funding priorities in accordance with local needs assessments and federal requirements. AAAs can transfer up to 40 percent of federal OAA funding between congregate meals and home delivered meals, and up to 30 percent of federal funds between nutrition programs and supportive services. Further, they can transfer funding among Community Based Services programs (CBSP). AAAs cannot transfer funding between OAA funding and Community Based Services.

Local Area Agencies on Aging are given substantial discretion to address individual community circumstances when developing local spending plans. The plans must meet federal requirements to provide minimum funding levels for transportation, information and assistance, in-home services, and legal assistance. Beyond the federal requirements, AAAs have substantial discretion to develop local plans that meet community needs. Local agencies consider the level of CDA program funding available, demographic data, consumer input and availability of other resources, such as state and county funded services. They are required to conduct a needs assessment that may include surveys, community forums, public hearings, and review of demographic and service utilization data. Lastly, local plans reflect other factors such as the stability, availability and reliability of providers, and past performance of contractors.

Local Area Agencies on Aging submit spending plans to the Department of Aging for review and approval. The CDA reviews proposed plans to assure they meet federal requirements for minimum funding, include necessary matching funds and are consistent with program plans. **Neither the CDA, nor local Area Agencies are required to consider the impact of local decisions on state costs when developing, reviewing and approving local expenditure plans.**

Funding decisions made by Local Area Agencies on Aging have a direct fiscal impact on the state and can increase or reduce the cost of state programs. Local Area Agencies on Aging fund services that are similar to other state and county funded programs, as they assist seniors in living independently and work to prevent institutionalization. Services funded by AAAs can be considered an alternative resource under the In-Home Supportive Services Program and can reduce state costs by decreasing utilization of IHSS service hours. Conversely, exclusion of persons receiving IHSS services from aging programs may increase state costs.

The CDA and Local Area Agencies on Aging are not required to consider the impact of local decisions on state costs when establishing priorities and developing expenditure plans. It may be financially beneficial to the state to target, within federal requirements, the $146 million ($31.4 million General Fund) in CDA funding for supportive and nutrition services to persons with significant service needs, including individuals receiving state services. Improved coordination of services and available federal funding may reduce state costs in other programs, such as In-Home Supportive Services.

Governor's Budget: The budget **proposes to consolidate General Fund support for aging services** to a single block grant and **to reduce total program funding by five percent ($1.7 million)**. The consolidated funds, which consist of $16.4 million for Older Americans Act (OAA) programs and $15 million for Community-Based Services Programs, will be provided to local area agencies on aging in a block grant. Local agencies will have discretion over funding decisions, within statutory constraints. Agencies will be required to spend the consolidated funds to support Older Americans Act, Title IIIB (Supportive Services), or IIIC (Nutrition) programs.

The Governor's proposal increases the ability of local agencies to adapt program funding to better meet local needs. However, the proposed block grant funding may erode or eliminate state standards, may lead to elimination of existing programs, and may limit the state's ability to assure that funding for long-term care services and funding for aging services is spent in the most cost-effective manner. The Administration intends to work with stakeholders to review current state and federal standards, determine if existing CBSP program standards should be applied to the federal programs, and address other implementation issues.

Issue A - Impact of Governor's Proposal on State Program Quality Standards

Background: The federal Older Americans Act supports a range of services and opportunities for older adults, particularly those at risk of losing their independence. It establishes federal priorities and funds supportive services, nutrition programs, employment services, and preventive health services for seniors.

The Older Californians Act provides for the delivery of community based services for older Californians and functionally impaired adults. The State Act also establishes standards for Community Based Services Programs which include the Foster Grandparent Program, Senior Companion Program, Respite Registry, Linkages, Alzheimer Day Care Resource Centers, the Brown Bag Program, Purchase of Services and HICAP. The Act establishes state priorities and works towards more uniform availability of core aging services across the state.

Governor's Budget: The Governor's Budget proposes to eliminate most Community Based Services Programs from state statute, to provide block grant funding to local Area Agencies on Aging, and to require agencies to spend the consolidated funds to support Older Americans Act, Title IIIB (Supportive Services), or IIIC (Nutrition) programs.

The Block Grant, as proposed by the Governor, may erode state standards and may lead to elimination of existing programs. Some state programs are incompatible with federal requirements. For example, the Alzheimer's Day Care Resource Centers generate more than half of their revenue through fees and private donations. Federal law prohibits means testing of aging services and does not allow programs to require fees from participants. If required to operate in accordance with federal requirements, ADCRCs would lose a substantial amount of funding and some programs may cease to operate.

The application of federal standards to state programs may restrict the population that can be served by state programs. The Older Californians Act provides for the delivery of community based services for older Californians and functionally impaired adults. Federal rules limit aging services to persons over the age of 60. To operate in compliance with federal requirements, CDA programs that serve younger disabled adults, such as Linkages and ADCRCs, would be required to limit their services to seniors.

The Department of Aging has identified a number of implementation issues relative to the Block grant proposal. The CDA is in the process of developing policies and contract requirements to permit local Community Based Services Programs to continue to operate under current state policies. According to the CDA, some of these policies will be reflected in revisions to proposed trailer bill language.

Subcommittee Request and Questions: The Subcommittee has requested the Department of Aging respond to the following questions:

1. Briefly describe the proposed state block grant for aging services.
2. How will the proposed block grant impact state standards and California's ability to establish priorities for aging programs?
3. What will be the programmatic and fiscal effect of requiring aging programs to operate under the federal Older Americans Act standards and requirements?

Issue B - Criteria for Funding Decisions and Potential Cost Shift to the State

Background: Funding decisions made by Local Area Agencies on Aging have a direct fiscal impact on the state and can increase or reduce the cost of state programs. However, the CDA and Local Area Agencies on Aging are not required to consider the impact of local decisions on state costs when establishing priorities and developing expenditure plans.

Area Agencies on Aging assess community needs at least once every four years to establish the basis for funding decisions. The needs assessment process, by design, captures unmet needs and considers available funding from other program sources. Generally, when a state-funded program is available, Area Agencies on Aging do not fund similar services or provide similar services to persons ineligible for the state-funded services. While this practice results in the provision of aging services to a broader population, it can shift costs from federal funds and CDA funded programs to state and county funded programs.

Governor's Budget: The budget proposes to consolidate General Fund support for aging services to a single block grant, gives local agencies discretion over funding decisions and maintains the existing process for developing local plans. The Block Grant, as proposed, may further reduce state oversight of local funding decisions and program operations. As a result, it may limit the state's ability to assure that funding for aging and other long-term care services is spent in the most cost-effective manner.

Subcommittee Request and Questions: The Subcommittee has requested that the Department of Aging respond to the following questions:

1. Briefly describe the current process Local Area Agencies on Aging follow to assess community needs and to develop local expenditure plans.
2. Please describe the criteria the Department considers when evaluating local plans and the Department's authority to modify or disapprove local plans.
3. To what extent does the state consider program cost effectiveness and the impact of local decisions on state costs when reviewing and approving local plans?

Issue C - State Leadership: Effect of Proposal on Department of Aging

Background: Current law establishes the mission of the department "to provide leadership to the area agencies on aging in developing systems of home- and community-based services that maintain individuals in their own homes or least restrictive homelike environments." Specifically, the CDA is responsible for development of service delivery standards and for oversight of aging programs.

Under the Governor's proposal, local agencies will assume responsibility for setting program priorities and making funding decisions. The Department will assume a more administrative role, but will remain responsible for fiscal and programmatic monitoring of federal aging programs.

Subcommittee request: The Subcommittee has requested that the Department of Aging discuss how the proposed block grant will impact the role of the CDA and the department's continued ability to meet its mission.

Budget Issues: Does the Subcommittee wish to adopt the Governor's proposed $1.7 million reduction in state operations and funding for aging programs? Does the Subcommittee wish to block grant funding for aging services?

5180 Department of Social Services – Community Care Licensing

The Department of Social Services Community Care Licensing Division (CCLD) establishes standards for, and oversees eighteen types of community facilities that provide care and supervision to Californians. These facilities include adoption agencies, foster care homes and agencies, childcare homes and centers, and residential care facilities for disabled and elderly adults. In addition, 42 counties license foster homes under contract with the Department of Social Services and 7 counties license family child care homes under similar contracts. The state monitors approximately 85,000 homes and facilities, with a capacity to serve more than 1.4 million individuals.

CCL offers provider orientations; applicant screenings; health and safety, staffing and financial regulations; and pre-licensing facility visits to applicants and potential applicants for community care licenses. CCL visits licensed facilities regularly, responds to complaints, and exercises a variety of enforcement actions, including consultation, fines and penalties. As a last resort, CCL pursues license suspension or revocation.

The budget proposes $124.9 million ($42.2 million General Fund) to support Community Care Licensing in the budget year.

ITEMS FOR DISCUSSION

1. Required Annual Visits to Licensed Facilities

Background: The Department of Social Services is responsible for licensing adoption agencies, foster care agencies and homes, childcare homes and centers and residential care facilities for disabled and elderly adults. As part of its licensing function, the **Department of Social Services conducts pre- and post- licensing site visits, and visits facilities when conducting investigations regarding incident reports and complaints.** Historically, the DSS was required to visit annually licensed foster family agencies, group homes, residential care facilities for persons with disabilities and elderly individuals, foster family homes, and childcare centers and to visit childcare homes triennially.

Budget reductions sustained by the Community Care Licensing Division during the 1990s significantly reduced the length and thoroughness of the required annual inspections. According to the department, annual inspections had become procedural in nature and focus. The visits were virtually announced as the department solicited information necessary to conduct the visit in the month preceding the inspection.

Recent budget reductions sustained by the CCLD curtailed further the department's licensing activities. The department established priorities among its statutorily required activities. **It prioritized the investigation of serious incident reports within the required 24-hour period. It also prioritized conducting site visits for complaint investigations within the required 10-day period.** Annual or triennial visits became a lower priority.

A recent workload analysis of the CCLD conducted by an independent entity confirmed that department resources were insufficient to meet statutory requirements. As a result of the imbalance between available resources and required activities, the department proposed and the Legislature adopted significant changes to the existing licensing methodology. Specifically, **the Budget Act of 2003 and its implementing legislation eliminated the required annual or triennial visits and instead required** the department to visit annually the following facilities:

1. Facilities owned or operated by a licensee on probation or against whom an accusation is pending;
2. Facilities subject to a plan of compliance requiring an annual inspection;
3. Facilities subject to an order to remove a person from a facility;
4. Facilities that require an annual visit as a condition of federal financial participation such as facilities serving adults with developmental disabilities.

All other facilities are subject to an annual inspection based on a 10 percent random sampling method. The department will continue to visit, on an annual basis, foster family agencies, adoption agencies, small family homes, adult residential facilities, residential care facilities for the chronically ill, transitional housing placement programs, childcare centers for the mildly ill, and social rehabilitation facilities.

Legislative changes required DSS to visit each facility at least once every five years and included an escalator clause to trigger additional visits if DSS identifies a significant number of violations during visits.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services report on implementation of the new methodology and answer the following questions:

1. Please provide a brief description of the new methodology for conducting annual visits.
2. Please describe briefly how the new targeted visits system working.
    - Are visits more likely to be unannounced?
    - Has the incidence of serious violations identified during visits changed?
    - Is the Department receiving more, less or the same number of complaints?
3. Is the Department meeting the statutorily required timelines for investigation of serious incident reports and complaints, as well as adhering to the new annual visit requirements?

2. Increase Community Care Licensing fees to cover program costs.

Background: California began assessing fees from a wide range of facilities licensed by the Department of Social Services in 1992. The fees were established to cover a modest portion of the costs for the state's licensing program. They are assessed on a per facility basis, with the exception of fees levied on child care centers operating more than one facility.

Since 1992, DSS fees had remained unchanged. The Budget Act of 2003 and its implementing legislation substantially increased the CCLD fees, established a new fee on foster family agencies and eliminated the cap on certain child care center fees. Fees on child care providers generally doubled, while fees on residential care providers increased by at least 25 percent. CCLD fees will now generate $14 million in revenue and will cover 40 percent of the General Fund costs of the Community Care Licensing Division.

Governor's Budget: The **budget proposes to increase fees paid by CCLD licensees** over a three-year period **to fully fund the state community care licensing costs with fee revenue.** The total General Fund cost of the CCLD program, which the Governor proposes to cover with fee revenue is $35 million.

Over the next three years licensing fees will double to reach the necessary level of revenue. The Department of Social Services is currently working with representatives of providers to review its existing fee structure and develop a new fee schedule consistent with the Governor's proposal.

Licensees subject to the fee increases include childcare providers, adult care facilities, children residential programs, and senior care providers. The state and counties are the primary, and in some cases the sole, purchasers of services provided by many CCLD licensees. **Substantial CCLD fee increases are tantamount to a rate reduction for some providers.** Such increases may result in a loss of available providers and additional pressure for adjustment of the state's reimbursement rates.

Currently, the CCLD fee revenues are considered General Fund revenue and as such are deposited into the General Fund along with all other General Fund revenues. The Analyst believes that this practice makes it difficult for the Legislature to determine whether or not the fees are adequate to fund the General Fund portion of the CCLD budget. **The Office of the Legislative Analyst recommends that the Legislature establish a special fund to capture licensing fee revenue** and assure that the proposed fee increases yield a stable funding source for the Community Care Licensing Division.

Subcommittee Request and Concerns: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Briefly describe the budget proposal and the resulting fee schedule adjustments.
2. Please describe the impact of the proposed fee increases to licensees.
3. How will the proposal affect provider rates, particularly foster care and childcare reimbursement rates?

The Subcommittee has requested that Legislative Analyst Office discuss the recommendation that the Legislature establish a special fund to capture licensing fee revenue.

Budget issue: Does the Subcommittee wish to adopt the Governor's proposal to increase licensing fees to fully fund General Fund CCLD costs? Does the Subcommittee wish to adopt placeholder trailer bill language to establish a special fund to capture licensing fee revenue?

3. FBI Fingerprinting Fee Exemption

Background: California requires persons working or volunteering at community care facilities and family day care facilities to be fingerprinted. Generally, licensees are required to pay for the fingerprinting process. Certain providers have been historically exempted, or partially exempted from the required fees. These providers include family day care providers, persons operating or managing a certified family home or a foster family home, and volunteers at child care facilities.

The Budget Act of 2003 and its implementing legislation suspended for one year the fingerprinting fee exemption or adjustment for General Fund savings of $2.8 million.

Governor's Budget: The budget proposes to eliminate the fingerprint fee exemptions for $2.8 million in General Fund savings.

Subcommittee Request and Concerns: The subcommittee has requested that the Department of Social Services briefly describe the existing fingerprint fee exemptions, who benefits from the exemption and how the proposal will impact provider participation in the foster care and child care programs.

Budget issue: Does the Subcommittee wish to adopt the Governor's proposal to eliminate the FBI fingerprinting fee exemption?